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CANADA DRY CORPORATION REPORT

JUN 20 1963

for six months ended March 31, **1963**

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AMERICA'S FIRST FAMILY OF BEVERAGES

CANADA DRY

CANADA DRY CORPORATION

Board of Directors

R. W. MOORE	Chairman of the Board
EDWIN F. BLAIR	Partner, Hughes, Hubbard, Blair & Reed
CLAUDE S. LAWSON	Chairman of the Board, United States Pipe & Foundry Co.
R. W. MOORE, JR.	President
DONALD C. POWER	Chairman of the Board, General Telephone and Electronics Corporation
EUGENE W. STETSON, JR.	Chairman of the Executive Committee, Winslow, Cohû & Stetson, Inc.
RICHARD H. WEST	Chairman of the Executive Committee, Irving Trust Company, New York

Officers

R. W. MOORE, JR.	President and General Manager
J. W. RED, JR.	Executive Vice-President
V. V. BAKER	Vice-President, Manufacturing and Transportaion
W. S. BROWN	Vice-President, Market Planning and Analysis
P. J. BURNSIDE	Vice-President, Wine and Spirits Division
P. H. LITTLEFIELD	Vice-President, Administrative
J. L. MURPHY, JR.	Vice-President, Quality Control
J. W. REILLY	Vice-President and Secretary
L. S. SAYLOR	Vice-President, U.S. Carbonated Division
H. D. SMITH	Vice-President, U.S. Carbonated Division—Sales
M. J. SOTAK, JR.	Vice-President, Wine and Spirits Division—Manufacturing and Transportation
C. E. VanANGLEN, JR.	Vice-President, International Division
J. A. GREIG	Treasurer
M. JENSEN	Controller
M. W. McCAFFREY	Assistant Secretary
EDITH S. SCHLEICHER	Assistant Secretary

Transfer Agent: FOR COMMON AND PREFERRED STOCK:
Morgan Guaranty Trust Company of New York, New York, N. Y.

Registrar: FOR COMMON AND PREFERRED STOCK:
Chemical Bank New York Trust Company, New York, N. Y.

Executive Offices: CANADA DRY CORPORATION, 100 Park Avenue, New York 17, N. Y.
CANADA DRY LIMITED, 153 Sherbourne St., Toronto 2, Ont., Canada
CANADA DRY (BERMUDA) LIMITED, Bermuda
EXTRACTOS Y DERIVADOS, S. A. DE C. V., Mexico City
SERVICIOS INDUSTRIALES Y COMMERCIALES, S. A. DE C. V., Mexico City
CANADA DRY (WESTERN HEMISPHERE) LTD., Dover, Del.
CANADA DRY G. M. B. H., Offenbach, Germany

Registered Office: CANADA DRY CORPORATION, 1 Exchange Place, Jersey City, N. J.

Report To Our Stockholders:

In the Proxy Statement for our last Annual Meeting, stockholders were informed of the change in the Company's fiscal year from October 1-September 30 to April 1-March 31. Thus, our new fiscal year commenced April 1, 1963 and the next Annual Report will be published in June 1964.

In the six months ended March 31, 1963, sales rose to $53,341,033, this new high reflecting the deeper market penetration achieved for Canada Dry beverages. All major product groups – carbonated as well as wine and spirits – expanded their volume in terms of both dollars and units.

Earnings were $1,411,002, which were equal after preferred stock dividends to $.56 on each of the 2,355,669 common shares outstanding. For the six months ended March 31, 1962, the reported earnings (unaudited) were $.59 per share, exclusive of special items.

In the financial statements presented herewith, the results for the corresponding period of the preceding year which are customarily shown have been omitted since they are not truly comparable. The statements shown herein have been audited and include all adjustments ordinarily made at the year-end, whereas the results reported for the six months ended March 31, 1962 were unaudited interim figures subject to year-end adjustments.

Dividends were paid during the period on October 1, 1962 and January 1, 1963 at the regular rate of $1.0625 per share on each of the 48,441 preferred shares outstanding, and at the quarterly rate of $.25 per share on each of the 2,355,669 common shares outstanding to stockholders of record as of September 14 and December 10, 1962 respectively.

As has been widely reported in the press, the prices of sugar in the United States and Canada have risen drastically in recent months. In New York City, for example, the price of refined sugar climbed from $9.70 per 100-pound bag on October 1, 1962 to a forty-three year high of $16.80 on May 22, 1963. Although minor downward adjustments have since occurred, it cannot presently be predicted when or at what level stabilization may be expected.

Since your Company is a major user of sugar, this condition is a matter which occupies our fullest attention. The impact of this added cost on our operations may be appreciated when it is realized that sugar is the largest single item of ingredient cost of the sugar-containing beverages and fountain syrups produced in our own plants in the United States and Canada and in the bottling syrups furnished to our licensed bottlers. We are naturally watching this situation closely and, to the extent that market and competitive conditions make possible, are adjusting our sales prices to offset, at least in part, the increased costs of our products.

In our International operations, in March 1963 alone, three new Canada Dry bottling plants were opened: in Madrid, Spain, a new market; Leeds, England; and Comodoro Rivadavia, Argentina.

The Wine and Spirits division sustained its previous trend of growth. Both the imported and domestic lines showed increased strength, especially Johnnie Walker Scotch whiskies, Pedro Domecq sherries and brandies, and Canada Dry Kentucky Bourbon.

Thanks are due our employees, our licensed bottlers and distributors, and our stockholders, all of whose effective teamwork helps keep the reputation and vitality of Canada Dry Corporation ever-growing.

Sincerely,

Roy W. Moore Jr.

June 12, 1963

PRESIDENT

CANADA DRY CORPORATION AND SUBSIDIARY COMPANIES

Consolidated Balance

ASSETS

CURRENT ASSETS:	
Cash	$ 4,514,322
Marketable securities – at cost plus accrued interest	5,800,884
Trade receivables (less reserve – $291,681)	12,233,396
Other receivables	1,101,015
Inventories – at cost, not in excess of market:	
Materials and supplies (average cost)	4,519,993
Carbonated beverages and resale extracts (average cost)	2,388,602
Liquors and wines (cost on "first-in, first-out" basis):	
In bond (subject to taxes payable on withdrawal)	6,888,705
Out of bond	1,022,682
Merchandise for resale	277,304
Total current assets	38,746,903
PROPERTY, PLANT AND EQUIPMENT:	
Land	829,695
Buildings, machinery, equipment, etc. (less reserves for depreciation and amortization – $16,565,008)	16,465,378
Containers – including estimated quantities in hands of customers:	
Bottles	12,436,670
Cases (less reserve, for balance sheet purposes, provided from earned surplus and equal to 50% of ledger value of cases – $4,069,099)	4,069,099
Total property, plant and equipment – net	33,800,842
OTHER ASSETS:	
Deposits receivable from customers on returnable containers – estimated	1,728,000
Prepaid expenses, deferred charges, etc.	2,686,342
Goodwill, trade-marks, etc.	1
Total other assets	4,414,343
TOTAL	$76,962,088

Reference is made to the Notes to Financial Statements appearing on page 5.

Sheet *March 31, 1963*

LIABILITIES

CURRENT LIABILITIES:	
Accounts payable	$ 3,506,374
Dividends payable	640,387
Notes due within one year	63,700
United States and Foreign income taxes	1,046,454
Other taxes	1,283,103
Salaries, wages, interest, and other accruals	1,192,420
Total current liabilities (exclusive of an indeterminable amount of container deposits which will be currently returned to customers — see below)	7,732,438
OTHER LIABILITIES:	
Twenty Year 4% Sinking Fund Debentures due June 1, 1976 ($530,000 redeemable annually)	9,350,000
4¾% Convertible Subordinated Debentures due July 1, 1981 (sinking fund requirements begin in 1971)	7,138,400
4% Notes, due $63,700 annually to July 1, 1969	382,200
Liability to customers for deposits on returnable containers — estimated	4,236,429
Deferred income taxes	2,267,000
Total other liabilities	23,374,029
CAPITAL STOCK AND SURPLUS:	
Capital stock:	
Preferred — authorized 58,012 shares without par value; issued and outstanding, 48,441 shares of $4.25 cumulative series (voting); at preference on involuntary liquidation, $100 a share	4,844,100
Common — authorized 3,000,000 shares par value $1.66⅔ a share; issued and outstanding, 2,355,669 shares	3,926,115
Capital surplus	8,308,178
Earned surplus	28,777,228
Total capital stock and surplus	45,855,621
TOTAL	$76,962,088

Reference is made to the Notes to Financial Statements appearing on page 5.

Statement of Consolidated Income

Six Months Ended March 31, 1963

NET SALES	$53,341,033
COST OF GOODS SOLD	26,253,589
GROSS PROFIT ON SALES	27,087,444
ADVERTISING, SELLING, DISTRIBUTING, AND GENERAL AND ADMINISTRATIVE EXPENSES	24,039,573
OPERATING INCOME (after depreciation, $1,070,242)	3,047,871
OTHER INCOME:	
Interest	78,846
Other – net	(21,165)
Total	3,105,552
DEDUCT – INTEREST ON LONG-TERM OBLIGATIONS	369,672
INCOME BEFORE UNITED STATES AND FOREIGN INCOME TAXES	2,735,880
PROVISION FOR UNITED STATES AND FOREIGN INCOME TAXES:	
United States	826,995
Foreign	162,883
Deferred	335,000
Total	1,324,878
NET INCOME	$ 1,411,002

Statement of Consolidated Earned Surplus

Six Months Ended March 31, 1963

BALANCE, OCTOBER 1, 1962	$28,688,085
NET INCOME	1,411,002
Total	30,099,087
DEDUCTIONS:	
Cash Dividends:	
Preferred Stock, $2.12½ a share	102,940
Common Stock, $.50 a share	1,177,835
Increase in reserve for cases, for balance sheet purposes, to amount equal to 50% of ledger value of cases	41,084
Total	1,321,859
BALANCE, MARCH 31, 1963	$28,777,228

Reference is made to the Notes to Financial Statements appearing on the opposite page.

Notes to Financial Statements

PRINCIPLES OF CONSOLIDATION

All subsidiaries, each of which is wholly-owned, are included in the financial statements.

The accounting year has been changed to one ending March 31, whereas the financial statements heretofore published have covered a fiscal year ended September 30. Therefore, the consolidated balance sheet at March 31, 1963 and statements of consolidated income and earned surplus for the six months then ended constitute a short-period report under the newly-adopted fiscal year.

As to foreign subsidiaries, current and other assets and liabilities are stated at rates of exchange prevailing at March 31, 1963. Property, plant and equipment are stated at rates of exchange in effect at dates of acquisition. Sales and earnings are stated at monthly average rates of exchange.

Net assets located outside the United States, principally Canada, were $10,263,041 at March 31, 1963.

CONTAINERS

The general practice of the Companies is to charge to income the cost of containers retired or otherwise disposed of, including those which, it is estimated, will not be returned by customers, less customers' deposits thereon and less sales proceeds, if any; and, for balance sheet purposes only, to provide a reserve for cases (equal to 50% of the ledger value thereof) from earned surplus. Container costs (net) so charged to income were $1,430,827 for the six months ended March 31, 1963.

FEDERAL INCOME TAXES

As permitted by the Federal income tax regulations, the Company and its Canadian subsidiary have for many years followed the practice, for income tax purposes only, of depreciating property on an accelerated basis and in the year ended September 30, 1962, the Company also adopted for Federal income tax purposes only, the "guideline" rates and rules allowed by the United States Treasury Department.

The investment credit allowed under the Revenue Act of 1962 will reduce Federal income tax payments by $73,000 for the six months ended March 31, 1963. For tax purposes, this credit is to be applied as a reduction of the cost of the property acquired, and depreciation expense correspondingly reduced over the life of the property; deferred income taxes relating thereto have been provided. The estimated permanent tax saving resulting from this credit, $35,000, is included in income.

LONG-TERM OBLIGATIONS

Of the authorized but unissued common stock, 246,152 shares were reserved at March 31, 1963 for conversion of the 4¾% debentures (convertible into common stock at $29 a share through July 1, 1981, subject to adjustment in certain events). A sinking fund requirement commencing in 1971 is designed to retire 60% of the issue prior to maturity.

The Indenture under which the convertible debentures were issued contains a restrictive covenant which limits the availability of surplus for the payment of dividends on common stock. The consolidated earned surplus free of such restriction at March 31, 1963 was approximately $4,300,000. However, there are no restrictions on the payment of dividends on preferred stock.

RETIREMENT PLAN

The Company and its Canadian subsidiary have retirement plans for qualified employees. Operations for the six months ended March 31, 1963 were charged $185,000 for contributions to the funds. The unfunded past service cost at March 31, 1963 was actuarially estimated to be $300,000.

LONG-TERM LEASES

Eleven plants (eight of which were formerly owned) are occupied under leases of land and buildings which provide for current aggregate annual rentals of $615,371 and successive renewal options for varying periods commencing 1967-80 at substantially lesser aggregate annual rentals, the Company also paying taxes, insurance, maintenance and repairs under these leases. In addition, the Companies occupy other premises, including two plants, under long-term leases at aggregate annual rentals of $187,760.

CONTINGENT LIABILITIES

The Company is contingently liable for discounted notes receivable and as guarantor of bank loans made to licensed bottlers to finance their purchases of vending machines, bottles, and cases. It is also contingently liable with respect to conditional sales contracts and other similar title retention agreements arising from the sale of vending machines. These instruments have been sold to banks, and in the event of default by the customer, are subject to repurchase by the Company. At March 31, 1963, such contingent liabilities amounted to $568,000.

Accountants' Opinion

To The Stockholders and Board of Directors of Canada Dry Corporation:

We have examined the consolidated balance sheet of Canada Dry Corporation and subsidiary companies as of March 31, 1963 and the related statements of consolidated income and earned surplus for the six months then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheet and statements of consolidated income and earned surplus present fairly the financial position of Canada Dry Corporation and subsidiary companies at March 31, 1963 and the results of their operations for the six months then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Haskins & Sells

New York, June 5, 1963

AMERICA'S FIRST FAMILY OF BEVERAGES
CANADA DRY